December 18, 2014

Mr. Barry Mardock
Deputy Director, Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Mr. Mardock:

Thank you for the opportunity to comment on Farm Credit Administration's (FCA) proposed capital rule as a member of the Board of Directors of Farm Credit Service of America.

I appreciate the FCA's efforts to tailor the proposed capital framework in a way that is consistent with both the BASEL III capital framework used by other financial institutions and the cooperative structure of the Farm Credit System (FCS). However, in spite of these efforts, the proposed capital rule fails to strike an appropriate balance between these two key concepts. As proposed, the capital rule would significantly undermine the cooperative structure upon which the FCS has been established. As a result, I ask that the FCA revise the proposed capital rule as outlined below:

1. Eliminate the requirement that FCS institutions obtain shareholder votes on the capitalization bylaw changes required by the proposed capital rule. This requirement results in a meaningless vote that puts FCS institutions and their member-customers in an impossible situation. If member-customers do not approve the bylaw changes required by the proposed capital rule, the institutions face capitalization challenges. If member-customers approve the bylaw changes, they undermine the institution's ability to function consistent with cooperative principles. At a minimum, non-qualified written notices of allocation that FCS institutions have distributed with no intent to revolve should be eliminated from this requirement. I appreciate the FCA's desire to ensure that the capital plan features of each FCS institution are effectively communicated to their member-owners, but believe that the FCA should rely on board policies, directives, loan documentation, patronage programs or capital plans for such communication rather than shareholder approved capitalization bylaw changes. Structurally, a board directive or similar document can accomplish the same outcome as a capitalization bylaw vote. Board direction, along with shareholder disclosures, is more than sufficient to implement a required regulatory capital framework.

2. Reduce the proposed Tier 1 leverage requirement to 4% to be consistent with Basel III standards implemented by financial institution regulators around the world. The proposed 5% standard is an arbitrary and capricious deviation from Basel III and functions as an attack on the wholesale Bank model. There is simply no quantitative analysis or loss experience that justifies a 5% Tier 1 leverage ratio for the FCS while all other regulated financial institutions regardless of structure are subject to a 4% requirement. The result of this inconsistency with Basel III will be higher borrowing costs for the member-customers of FCS institutions and ultimately an unnecessary limitation on the ability of the FCS to fully serve its congressionally mandated mission.

3. Eliminate the concept of 10-year revolvement cycles for Association investments in their funding Bank to qualify for treatment as common Cooperative Equity Tier 1 (CET1) capital. Within the closed FCS cooperative structure, requiring a revolvement cycle for Association-held Bank equities is

unnecessary, inefficient, ineffective, and without any discernable benefit. Each affiliated Association's capital investment is understood and legally structured as a permanent capital contribution to the Bank that is fully at risk and available to absorb losses. The law requires affiliated Associations to capitalize and obtain funding from a Farm Credit Bank, which means that they need to maintain a permanent investment in such Bank. The ability to adjust this investment is critical to ensure that Associations share proportionately and appropriately in Bank capitalization and risk of loss. It is unnecessary and unworkable to require each Association's individual Bank shares to be outstanding for 10 years to qualify as CET1 capital. Such a requirement effectively means that the Bank cannot truly function as a cooperative or appropriately equalize its capital investments. It is critical that the FCA understand that the permanence of Bank capital is entirely unaffected by how capital is equalized among affiliated Associations.

I am confident that the refinements described above would make the proposed capital rule significantly more workable and effective from a safety and soundness perspective and clearly more consistent with how other financial institution regulators are implementing Basel III. Most importantly, the refinements will ensure that the FCS will continue to function pursuant to the cooperative principles that Congress clearly intended. The cooperative structure of the FCS sets it apart from other financial institutions and has enabled it to successfully serve its congressionally mandated mission for nearly 100 years.

I appreciate the opportunity to comment on this proposed rule and the FCA's willingness to consider my feedback.

Sincerely,

Susan K. Voss

Susan K. Voss
Board of Directors – Farm Credit Services of America